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January 31, 2013

Mr. James Parker  
Illinois Department of Healthcare and Family Services  
Prescott Bloom Building  
201 S. Grand Avenue East, 2nd Floor  
Springfield, IL 62763-0001

**RE: INTEGRATED CARE PROGRAM CAPITATION RATES – SERVICE PACKAGE II –**

Dear Jim:

Milliman, Inc. (Milliman) has been retained by the State of Illinois, Department of Healthcare and Family Services (HFS) to provide actuarial and consulting services related to calculating capitation rates for Service Package II of the Integrated Care Program (ICP) for the Aged, Blind and Disabled non-Dual population for the February 1, 2013 through December 31, 2013 contract period. This letter provides the documentation and actuarial certification for Service Package II benefits. Benefits under Service Package I for the ICP are documented and certified in a separate letter.

**LIMITATIONS**

The services provided for this project were performed under the contract extension between Milliman and HFS dated September 27, 2012.

The information contained in this letter, including the enclosures, has been prepared for the State of Illinois, Department of Healthcare and Family Services and their consultants and advisors. It is our understanding that the information contained in this letter may be utilized in a public document. To the extent that the information contained in this letter is provided to third parties, the letter should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the data presented.

Milliman makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for HFS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this letter must rely upon their own experts in drawing conclusions about the capitation rates, assumptions, and trends.

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The information contained in this letter was prepared as documentation of the actuarially sound capitation rates for Medicaid managed care for the Aged, Blind and Disabled non-Dual population in the State of Illinois. The information may not be appropriate for any other purpose. Although the capitation rates have been certified as actuarially sound, the capitation rates may not be appropriate for any individual health plan.

### **EXECUTIVE SUMMARY**

The State of Illinois, Department of Healthcare and Family Services (HFS) provides a managed care program for the Aged, Blind and Disabled (ABD) non-Dual eligible population in selected counties. Capitation rates have been developed for the eleven month period beginning February 1, 2013 for Service Package II benefits. Service Package II benefits are for nursing home and waiver services for the individuals participating in the ICP. Service Package II does not include services for ICF/MR facilities or waiver services for individuals on the Developmentally Disabled waiver. The contracted health plan will receive a capitation payment for both Service Package I and Service Package II benefits.

Table 1 illustrates the proposed monthly capitation rates for each rate cell for Service Package II benefits.

**Table 1**

**State of Illinois  
Department of Healthcare and Family Services  
PMPM Capitation Rates effective February 1, 2013 through December 31, 2013  
Integrated Care Program: Service Package II**

<b>Rate Cell</b>	<b>December 2011 Enrollment</b>	<b>Proposed Capitation Rate</b>
Nursing Facility	975	\$3,750.19
Other Waiver	2,834	1,696.12
Other Waiver – Plus Rate	N/A	3,065.50
Community – Plus Rate	N/A	375.02

Enclosure 1 contains an actuarial certification regarding the actuarial soundness of the capitation rates.

Enclosure 2 provides the actuarial models which illustrate the development of the capitation rates.

The remainder of this letter provides the documentation of the development of the capitation rates.

## **DEVELOPMENT OF ACTUARIALLY SOUND CAPITATION RATES**

The capitation rates were developed using state fiscal year 2010 and 2011 experience for the targeted population. The Service Package II base capitation rates are for individuals enrolled in the Integrated Care Program that either reside in a nursing home or are in a home and community based services (HCBS) waiver. “Plus” rates have also been developed to encourage transition from institutional care to the community setting. The “Plus” rates will be paid for a three-month period following discharge from a nursing facility either to an HCBS waiver or to the community and no longer under a waiver. For an individual transitioning to a nursing facility from an HCBS waiver, the health plan will receive the base rate from the place of transfer for the first three months in the nursing home. For an individual who transitions to an HCBS waiver from the community, the health plan will receive the waiver “Plus” rate for three months.

The following provides the key assumptions utilized in developing the capitation rates:

- Base Data: SFY 2010 and SFY 2011 expenditures for the targeted population
- Population Stratification: Individuals were allocated to either Nursing Home or Other Waiver based on their placement on the first day of the month.
- Managed Care Adjustment: 2% targeted utilization savings for home and community based services and 0% targeted utilization savings for nursing home services
- Trend Rate: 2% annual trend for waiver services for HCBS identified recipients and 1% annual trend for waiver services which occur in the same month as in a nursing home. The trend rates were developed from historical fee-for-service experience.
- Save Medicaid Access and Resources Together Act (SMART) program change: The nursing facility service category was adjusted to reflect a reduction in bed hold payments of approximately \$1.5 million per year for the two regions combined.
- Fee schedule changes for supportive living facility and nursing facility rates: adjustments were made to reflect fee changes between the base data period and the contract period of March 1, 2013 through December 31, 2013. Adjustments include the SMART Act provider rate decrease of 2.7%.
- Administration Load: \$100 per month for the Nursing Facility rate and \$150 per month for Other Waiver Rate.
- Other Waiver Plus Rate: This rate will be paid for a three-month period following discharge from a nursing facility to an HCBS waiver or when moved from the community to an HCBS waiver. The rate was calculated as the Other Waiver base rate plus two-thirds the difference between the Nursing Facility rate and the Other Waiver rate.
- Community Plus Rate: This rate will be paid for a three-month period following discharge from a nursing facility to the community without waiver services. The rate was calculated as 10% of the Nursing Facility base rate for Service Package II services.

**CAPITATION RATE IMPACT**

Table 2 illustrates the estimated expenditures for the period of February 1, 2013 through December 31, 2013 for the Service Package II capitation rates. We have not illustrated a fiscal impact, since there are no current rates in effect. Both the State and Federal and the Federal only proposed expenditures are shown. The Federal only expenditures were estimated using a 50.00% FMAP rate based on rates published by the Department of Health and Human Services in the November 23, 2011 Federal Register.

**Table 2**

**State of Illinois  
Department of Healthcare and Family Services  
Contract Period Impact of Capitation Rate Expenditures  
Integrated Care Program: Service Package II  
February to December 2013 Expenditures  
{Dollars shown in Millions}**

<b>Fiscal Basis</b>	<b>Estimated Member Months</b>	<b>Proposed Expenditures</b>
State and Federal	51,116	\$ 107.5
Federal Only		\$ 53.7

Note: Values have been rounded.

**DATA RELIANCE**

We relied upon the following information provided by HFS to develop the actuarially sound capitation rates for the February 1, 2013 through December 31, 2013 contract period.

- Detailed fee-for-service claims data incurred July 1, 2009 through June 30, 2011, and paid through July 2012.
- Detailed fee-for-service enrollment data for period July 2009 through June 2011.
- Summary of policy and program changes through state fiscal year 2013 (including changes to fee schedules and other payment rates).
- December 2011 health plan enrollment for the program.

We have relied upon HFS for the accuracy of the information provided. We performed no independent audit or review of the data and information. The capitation rates provided in this letter will change to the extent that there are material errors in the information that was provided.



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Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet the qualification standards for performing the analyses in this report.

If you have any questions regarding the enclosed information, please do not hesitate to contact me at (317) 524-3513.

Sincerely,

An electronic signature of Jeremy D. Palmer, written in cursive. The word "Electronic" is written in a light blue font above the signature, and "Signature" is written in a light blue font below it.

Jeremy D. Palmer, FSA, MAAA  
Principal and Consulting Actuary

JDP/lrb  
Enclosures



## **ENCLOSURE 1**

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**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
Integrated Care Program – Service Package II  
Capitation Rates Effective February 1, 2013 through December 31, 2013**

**Actuarial Certification**

I, Jeremy D. Palmer, am a Principal and Consulting Actuary with the firm of Milliman, Inc. I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. I was retained by the State of Illinois, Department of Healthcare and Family Services to perform an actuarial review and certification regarding the development of the capitation rates to be effective for the contract period of February 1, 2013 through December 31, 2013. I have experience in the examination of financial calculations for Medicaid programs and meet the qualification standards for rendering this opinion.

I reviewed the historical claims experience for reasonableness and consistency. I have developed certain actuarial assumptions and actuarial methodologies regarding the projection of healthcare expenditures into future periods. I relied upon the State of Illinois for a data extract of the medical claims data, eligibility information, and financial reports. I have complied with the elements of the rate setting checklist CMS developed for its Regional Offices regarding 42 CFR 438.6(c) for capitated Medicaid managed care plans.

The capitation rates provided with this certification are considered actuarially sound, defined as:

- the capitation rates have been developed in accordance with generally accepted actuarial principles and practices;
- the capitation rates are appropriate for the populations to be covered, and the services to be furnished under the contract; and,
- the capitation rates meet the requirements of 42 CFR 438.6(c).

This Opinion is intended for the State of Illinois and should not be relied on by other parties. The reader should be advised by actuaries or other professionals competent in the area of actuarial projections of the type in this Opinion, so as to properly interpret the projection results. It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Actual costs will be dependent on each contracted health plan's situation and experience.



This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

A handwritten signature in black ink that reads "Jeremy D. Palmer".

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Jeremy D. Palmer, FSA  
Member, American Academy of Actuaries

January 31, 2013  
Date



## **ENCLOSURE 2**

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**State of Illinois  
Department of Healthcare and Family Services  
Integrated Care Program for the Aged, Blind and Disabled  
Rate Development - Service Package II**

Region: All Counties  
Population: Other Waiver

SFY 2011 FFS Member Months: 43,059

<i>Other Waiver-Service Package II</i>	Base Adjusted/Blended/Trended to SFY 2011				MC Adj Util	Intensity Cost Adj	Annual Trend Util	Annual Trend Cost	February 2013 - December 2013		
	Utilization Per 1,000	Cost per Service	PMPM	Utilization Per 1,000					Cost per Service	PMPM	
	Nursing Facility	-	\$ 0.00	\$ 0.00					1.0000	1.0000	1.0000
Homemaker	31,635.6	83.78	220.87	0.9800	1.0000	1.0200	1.0000	32,603.3	83.78	227.62	
PA, RN, LPN, CNA Providers and Therapies	13,079.2	740.91	807.55	0.9800	1.0000	1.0200	1.0000	13,479.3	740.91	832.25	
Assisted Living	4,343.9	71.08	25.73	0.9800	1.0000	1.0200	1.0000	4,476.8	71.08	26.52	
Adult Day Health	2,967.0	51.20	12.66	0.9800	1.0000	1.0200	1.0000	3,057.8	51.20	13.05	
Home Health/Hospice	647.5	374.40	20.20	0.9800	1.0000	1.0200	1.0000	667.3	374.40	20.82	
Electronic Home Response/EHR Installation	1,309.3	27.19	2.97	0.9800	1.0000	1.0200	1.0000	1,349.3	27.19	3.06	
DORS	7,235.2	660.86	398.46	0.9800	1.0000	1.0200	1.0000	7,456.5	660.86	410.65	
Other Waiver Services	419.4	337.67	11.80	0.9800	1.0000	1.0200	1.0000	432.2	337.67	12.16	
<b>Subtotal</b>	<b>61,637.1</b>	<b>\$ 292.08</b>	<b>\$ 1,500.23</b>					<b>63,522.4</b>	<b>\$ 292.08</b>	<b>\$ 1,546.12</b>	
Other Waiver- Service Package II Medical Cost	61,637.1	\$ 292.08	\$ 1,500.23					63,522.4	\$ 292.08	\$ 1,546.12	
								Fixed Admin		150.00	
								Variable Admin	0.0%	-	
								Other Waiver SP II Base Capitation Rate		\$ 1,696.12	

Region: All Counties  
Population: Nursing Facility

SFY 2011 FFS Member Months: 35,161

<i>Nursing Facility-Service Package II</i>	Base Adjusted/Blended/Trended to SFY 2011				MC Adj Util	Intensity Cost Adj	Annual Trend Util	Annual Trend Cost	February 2013 - December 2013		
	Utilization Per 1,000	Cost per Service	PMPM	Utilization Per 1,000					Cost per Service	PMPM	
	Nursing Facility	350,785.9	\$ 124.49	\$ 3,639.24					1.0000	1.0000	1.0000
Homemaker	44.2	60.57	0.22	0.9800	1.0000	1.0100	1.0000	44.4	60.57	0.22	
PA, RN, LPN, CNA Providers and Therapies	14.9	641.70	0.80	0.9800	1.0000	1.0100	1.0000	15.0	641.70	0.80	
Assisted Living	63.4	75.08	0.40	0.9800	1.0000	1.0100	1.0000	63.7	75.08	0.40	
Adult Day Health	0.2	56.47	0.00	0.9800	1.0000	1.0100	1.0000	0.2	56.47	0.00	
Home Health/Hospice	-	-	-	0.9800	1.0000	1.0100	1.0000	-	-	-	
Electronic Home Response/EHR Installation	9.4	22.40	0.02	0.9800	1.0000	1.0100	1.0000	9.5	22.40	0.02	
DORS	198.7	570.14	9.44	0.9800	1.0000	1.0100	1.0000	199.7	570.14	9.49	
Other Waiver Services	0.9	281.93	0.02	0.9800	1.0000	1.0100	1.0000	0.9	281.93	0.02	
<b>Subtotal</b>	<b>351,117.5</b>	<b>\$ 124.75</b>	<b>\$ 3,650.14</b>					<b>351,119.1</b>	<b>\$ 124.75</b>	<b>\$ 3,650.19</b>	
Nursing Facility- Service Package II Medical Cost	351,117.5	\$ 124.75	\$ 3,650.14					351,119.1	\$ 124.75	\$ 3,650.19	
								Fixed Admin		100.00	
								Variable Admin	0.0%	-	
								Nursing Facility SP II Capitation Rate		\$ 3,750.19	

Region: All Counties  
Population: Steppedown Rates

<i>Other Waiver Plus Rate - All counties</i>	\$ 3,065.50
<i>Community Plus Rate - All counties</i>	\$ 375.02

- Notes:**  
1. Other Waiver Plus rate is calculated as Other Waiver Base rate plus 2/3 of the difference between the Nursing Facility and Other Waiver Base rates.  
2. Community Plus rate is calculated as 10% of the Nursing Facility rate.